

**REPORT OF THE AUDIT OF THE
ROWAN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2005**

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To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Clyde A. Thomas, Rowan County Judge/Executive

Members of the Rowan County Fiscal Court

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Rowan County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Rowan County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Rowan County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Rowan County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Clyde A. Thomas, Rowan County Judge/Executive
Members of the Rowan County Fiscal Court

Management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Rowan County, Kentucky's basic financial statements. The accompanying supplemental information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated November 11, 2005 on our consideration of Rowan County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in dark ink that reads "Morgan-Franklin, LLC". The signature is written in a cursive, flowing style.

Morgan-Franklin, LLC

Audit fieldwork completed
November 11, 2005

ROWAN COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2005

Fiscal Court Members:

Clyde A. Thomas	County Judge/Executive
Anna Pecco	Magistrate
Jerry Flannery	Magistrate
Troy Perkins	Magistrate
Nick Caudill	Magistrate

Other Elected Officials:

William W. Roberts	County Attorney
Tim Bryant	Jailer
Jean W. Bailey	County Clerk
Jim Barker	Circuit Court Clerk
Jack Carter	Sheriff
C.J. Baker	Property Valuation Admin.
John P. Northcutt	Coroner

Appointed Personnel:

Kerry M. Jessee	County Treasurer
Charles Stansbury	Occupational Tax Collector
Mary Ann Stevens	Finance Officer

Management's Discussion and Analysis
June 30, 2005

The financial statement of Rowan County, Kentucky offers readers of Rowan County's financial statement this narrative overview and analysis of the financial activities of Rowan County for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our financial statements and the notes to the financial statements.

Financial Highlights

- * Rowan County has net capital assets of \$8,823,326 as of June 30, 2005. The fiscal court had unrestricted net assets of \$494,038 in its governmental activities as of June 30, 2005. In its business-type activities, cash and cash equivalents were \$18,198 with total assets of \$27,438. Total debt principal as of June 30, 2005 was \$3,625,000 with \$540,000 due within one year.
- * At the close of the current fiscal year, Rowan County balance sheet reported a fund balance of \$2,565,024. Of this amount, \$501,855 is available for spending at the government's discretion (unreserved fund balance).
- * Rowan County's total indebtedness at the close of fiscal year June 30, 2005 was \$3,625,000 which is long term debt. Debt additions were \$1,000,000 and debt reductions were \$648,783.
- * In September 2003, Rowan County Fiscal Court was awarded a grant in the amount of \$500,000 from Community Development Block Grant-State Administered Small Cities Program for the purchase of the DOVES building. Rowan County expended \$498,500 during the fiscal year 2003/2004. The remaining \$1,500 was expended in August of 2004.
- * Rowan County received a total of \$97,000 from the Kentucky Department of Agriculture to administer and expend to the following programs: genetic improvement (bulls), hay, straw, and commodity, agricultural diversification, and farm water enhancement. The fiscal court again this year received \$27,497 from the Department of Environmental Protection for litter abatement funding.
- * Rowan County declared the former DOVES facility surplus and auctioned property on November 6, 2004. The proceeds were used to pay off the debt related to the building.
- * Rowan County has received from the Department of Military Affairs-Homeland Security funding for Hazmat 8, WMD, and FEMA funding due to disasters in Rowan County in the amount of \$352,227 and expended \$380,036.
- * Rowan County has received \$1,000,000 from the Lucille Little Foundation for the restoration of the old courthouse. The fiscal court had to match the funds with \$1,000,000 and the City of Morehead gave \$10,000 toward the start of this project. All funds will be for the construction of restoring the old courthouse located in Rowan County.

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Rowan County's basic financial statements. Rowan County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. These schedules include prior and current comparisons of general revenues by major source, and program expenses by function.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of Rowan County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all Rowan County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Rowan County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues, and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of Rowan County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Rowan County's governmental activities include general governmental, protection to persons and property, roads, recreation, and social services. Rowan County has one business type activity—the operation of a jail canteen.

The government-wide financial statements include not only Rowan County itself (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with Rowan County. Rowan County has one entity, the Public Properties Corporation. It is presented as a blended component unit.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Rowan County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Rowan

County can be divided into two broad categories; *governmental funds and proprietary funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions.

Governmental Funds (continued). Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Rowan County maintains thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road Fund, Jail Fund, Disaster and Emergency Services Fund, Ambulance Fund, and County of Rowan Properties Corporation Fund, and the Old Courthouse Restoration Fund all of which are considered major funds by Rowan County. Local Government Economic Assistance Fund, State Grant Fund, Forest Fire Fund, Local Government Economic Development Grant Fund, CDBG Fund, and the Hazmat 8 Fund, are considered non-major funds and are represented in an combined form.

Rowan County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for the General Fund and each major special revenue fund to demonstrate compliance with their budgets.

Proprietary Funds. Proprietary funds provide the same type of information as the business-type activities column on the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis.

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Table 1
County's Net Assets

<u>Assets</u>	<u>2005</u>	<u>2004</u>
Capital Assets	8,823,326	8,676,234
Total Capital Assets	8,823,326	8,676,234
<u>Liabilities</u>		
Current and other liabilities	540,000	617,496
Long-Term liabilities	3,085,000	2,656,287
Total Liabilities	3,625,000	3,273,783
<u>Net Assets</u>		
Invested in capital assets, net of related debt	5,189,086	5,402,451
Restricted	2,070,807	174,614
Unrestricted	521,654	717,662
Total Net Assets	7,781,547	6,294,727

Financial Analysis of Rowan County's Funds.

As noted earlier, Rowan County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Overview. The focus of Rowan County governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing Rowan County's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the June 30, 2005 fiscal year, the combined ending fund balance of Rowan County governmental funds was \$2,565,023. Approximately 20% (\$501,855) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance (\$2,063,168) is reserved to indicate that it is not available for new spending because it is committed.

Rowan County has 7 major governmental funds. These are 1) General Fund; 2) Road Fund; 3) Jail Fund 4) D.E.S. Fund; 5) Ambulance Fund; 6) the County of Rowan Properties Corporation and 7) Old Courthouse Restoration Fund. There are 6 non-major funds. They are the Local Government Economic Assistance Fund, State Grants Fund, Forest Fire Fund, Economic Development Fund, CDBG Fund, and the Hazmat 8 Fund.

1. The General Fund is the chief operating fund of Rowan County. At the end of June 30, 2005 fiscal year, unreserved fund balance of the General Fund was \$106,076 while total fund balance was \$110,435. The county received \$1,852,681 Occupational Tax revenues. This accounts for approximately 63% of the general fund revenue. \$496,202 was received from real and personal property taxes and accounts for 17% of the

county's general fund revenues. Various other taxes, service fees, and grants make up the remaining 20% of revenues. Rowan County distributes 25% of the occupational tax to the Road Fund for the blacktop maintenance program.

2. The Road and Bridge Fund is the fund related to county road and bridge construction and maintenance. This Fund had \$33,708 in fund balance at June 30, 2005. The fund balance at the end of the previous year was \$14,636. The fiscal year 2005 expenditures for road projects were \$2,017,009.
3. The Jail Fund is used to account for the operation of Rowan County's detention program. The Jail Fund had a fund balance at June 30, 2005 of \$33,298. That is an increase in fund balance of \$30,944 over the previous fiscal year end. The Jail Fund received \$881,687 in revenues, primarily for housing prisoners. The General Fund contributed \$386,600 to the jail operations.
4. The Local Government Economic Assistance Fund has a fund balance of \$52,539, and that is an increase of \$40,341 over the previous fiscal year end.
5. The Substance Abuse (State Grants) fund is used to account for tobacco funds that are used to implement a substance abuse program. The original grant amount for \$50,000 was received in 2003-2004. The fund balance was \$6,562 and the fund decreased in 2004-2005 by \$11,286.
6. The Forest Fire Fund is used to account for funds received from fire protection. The county received \$1,466 in revenue and expended \$1,604, leaving a fund balance of \$187.
7. The Local Government Economic Development Grant Fund is comprised of recaptured grant funds from Family Dollar Services, Inc. The amount of funds is \$42,400 and is reserved for economic spending only. The spending of these funds are highly restricted.
8. The Community Development Block Grant Fund was restricted for the purchase of a building for D.O.V.E.S. The county was awarded a grant for \$500,000 and received and expended \$498,500 in fiscal year 2003-2004. The remaining \$1,500 was received and expended in August 2004. The grant fund was closed at that time.
9. The Hazmat 8 Fund is restricted to the purchase of hazardous materials and equipment. The fund received \$195,006 in federal funds from the Department of Military Affairs and expended \$237,528. It has a fund balance of \$2,356 at June 30, 2005.
10. The County of Rowan Properties Corporation is designated for the payment of the Abuse Shelter and Detention Center leases. Transfers received from the General and Jail Funds totaled \$376,851. The fund expended \$379,573 to US Bank and Central Bank & Trust.
11. The Disaster and Emergency Services Fund is used to account for funds

received from state and local governments for disaster and emergency services. The County has received \$42,606 in revenue and expended \$70,344 leaving a fund balance of \$185,999.

12. The Ambulance Fund is used to account for funds received for ambulance services. The county has received \$1,127,766 in revenues and expended 1,234,615 leaving a fund balance of \$68,754.
13. The Old Courthouse Restoration Fund is designated to restore the old courthouse in Rowan County. The Lucille Little Foundation contributed a \$1,000,000 match if the county gave a match of \$1,000,000. The fund received \$2,010,000 and expended \$116,167. The fund balance as of June 30, 2005 was 1,893,833.

Proprietary Funds Overview. Rowan County's proprietary fund statements provide the same type of information found in the business-type activities column of the government-wide statements, but in more detail.

Rowan County has one enterprise fund, the Jail Canteen Fund. The Jail Canteen Fund had a cash balance of \$18,198 as of June 30, 2005.

Table 2
Cash Flow Analysis
Change in Cash Comparison FY 2004 and FY 2005

Revenues:	FY 2004	FY 2005
Taxes	3,005,472	3,106,114
In Lieu of Tax Payments	86,349	224,756
Excess Fees	104,427	99,032
Licenses & Permits	131,941	155,368
Intergovernmental	4,224,990	2,955,369
Charges for Services	849,136	973,002
Miscellaneous	374,512	1,168,837
Interest	13,134	18,326
Total Revenue	8,789,961	8,700,804
Expenditures:		
General Government	1,075,150	1,091,982
Protection to Persons & Property	2,323,015	2,180,131
Health & Sanitation	176,663	183,334
Social Services	36,352	34,096
Recreation & Culture	116,872	329,418

Airports	12,500	12,500
Roads	2,147,714	1,632,353
Capitol Projects	549,189	146,024
Road Facilities	18,565	18,656
Debt Service	775,515	815,551
Administration	1,444,076	1,584,011
Total Expenditures:	8,675,611	8,028,056
Other Financing Sources:		
Financing Obligation Proceeds		1,000,000
Transfers from Other Funds	1,283,542	1,441,855
Transfers to Other Funds	-1,283,542	-1,441,855
Total Other Financial Sources (Uses)		1,000,000
Increase (Decrease) in Net Cash	114,350	672,748
Cash Balance Beginning of Year	777,926	892,276
Cash Balance End of Year	892,276	2,565,024

Budgetary Highlights.

Rowan County's original budget was amended during the fiscal year decreasing the operating budget by \$2,929,857. Budget amendments were made to all areas due to state and federal grants, surplus carried forward, and increase in several accounts as opposed to projected collections.

Actual operating revenues were \$189,730 more than final budget of the Fiscal Court. This increase was primarily from \$2 million for Old Courthouse Restoration, tobacco settlement funds, FEMA, and inmate housing.

Actual operating expenditures were \$195,260 less than amount originally budgeted by Fiscal Court.

Capital Assets and Debt Administration.

Capital Assets. Rowan County's investment in capital assets for its government and business type activities as of June 30, 2005, amounts to \$8,823,326 (net of accumulated depreciation). This investment in capital assets included land, building, improvements to land other than buildings, machinery and equipment, vehicles and infrastructure.

Major capital asset events during the 2005 fiscal year included the detention center new computer system installation, the purchase of a new ambulance, a new solid waste vehicle, and a new maintenance department vehicle. Additional information on Rowan County's capital assets can be found in Note 4 of this report.

Table 3
Rowan County's Capital Assets, Net of Accumulated Depreciation

Governmental Activities

	<u>2005</u>	<u>2004</u>
Infrastructure Assets	563,546	202,646
Land	4,328,917	4,328,917
Buildings & Improvements	3,079,530	3,281,469
Other Equipment	402,288	387,267
Vehicles & Equipment	439,805	475,935
Total Net Capital Assets	8,814,086	8,676,234

Capital Assets and Debt Administration.

Long-Term Debt. At the end of the 2005 fiscal year, Rowan County had total long-term debt outstanding of \$3,625,000. The amount of this debt due within the next year is \$540,000 and \$3,085,000 is due in subsequent years. This debt is for the detention center, fire equipment, airport, ambulance, 1999 series blacktop bond, and the old courthouse restoration. This debt is described in Note 3 of the notes to the financial statements.

Requests for Information

This financial report is designed to provide a general overview of Rowan County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Rowan County Treasurer, 627 East Main Street, Morehead, Kentucky, 40351.

**ROWAN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

As of June 30, 2005

ROWAN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
As of June 30, 2005

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,565,024	\$ 18,198	\$ 2,583,222
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation:			
Land and Land Improvements	\$ 4,328,917	\$ 0	\$ 4,328,917
Buildings	3,079,530		3,079,530
Other Equipment	402,288		402,288
Vehicles and Equipment	439,805		439,805
Infrastructure Assets - Net of Depreciation	563,546	9,240	572,786
Total Noncurrent Assets	<u>\$ 8,814,086</u>	<u>\$ 9,240</u>	<u>\$ 8,823,326</u>
Total Assets	<u>\$ 11,379,110</u>	<u>\$ 27,438</u>	<u>\$ 11,406,548</u>
LIABILITIES			
Current Liabilities			
Bonds Payable	\$ 305,000	\$ 0	\$ 305,000
Financing Obligations Payable	235,000		235,000
Total Current Liabilities	<u>\$ 540,000</u>	<u>\$ 0</u>	<u>\$ 540,000</u>
Noncurrent Liabilities:			
Bonds Payable	\$ 1,330,000	\$ 0	\$ 1,330,000
Financing Obligations Payable	1,755,000		1,755,000
Total Noncurrent Liabilities	<u>\$ 3,085,000</u>	<u>\$ 0</u>	<u>\$ 3,085,000</u>
Total Liabilities	<u>\$ 3,625,000</u>	<u>\$ 0</u>	<u>\$ 3,625,000</u>
NET ASSETS			
Invested In Capital Assets, Net of Related Debt	\$ 5,189,086	\$ 9,240	\$ 5,198,326
Restricted			
Capital Projects	1,935,855		1,935,855
Debt Service	134,952		134,952
Unrestricted	494,217	18,198	512,415
Total Net Assets	<u>\$ 7,754,110</u>	<u>\$ 27,438</u>	<u>\$ 7,781,548</u>

The accompanying notes are an integral part of the financial statements.

**ROWAN COUNTY
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS**

For The Year Ended June 30, 2005

ROWAN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005

Functions/Programs	Net (Expenses) Revenues and Changes					Totals
	Expenses	Program Revenues Received		In Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities	
Primary Government:						
Governmental Activities:						
General Government	\$ 1,231,826	\$ 244,401	\$ 1,339,282	\$ 0	\$ 351,857	\$ 0
Protection to Persons and Property	2,210,240	1,638,053	94,113		(478,074)	
General Health and Sanitation	174,615				(174,615)	
Recreation and Culture	329,418				(329,418)	
Roads	1,319,075		707,775		(611,300)	
Road Facilities	18,656				(18,656)	
Airports	12,500				(12,500)	
Debt Service	180,678				(180,678)	
Capital Projects	146,024				(146,024)	
Social Service	34,096		117,625		83,529	
Administration	1,584,012		0		(1,584,012)	
Total Governmental Activities	\$ 7,241,140	\$ 1,882,454	\$ 2,258,795	\$ 0	\$ (3,099,891)	\$ 0
Business-Type Activities:						
Jail Canteen Fund	\$ 95,041	\$ 108,079	\$ 0	\$ 0	\$ 0	\$ 13,038
Total Primary Government	\$ 7,336,181	\$ 1,990,533	\$ 2,258,795	\$ 0	\$ (3,099,891)	\$ 13,038
General Revenues:						
Taxes:						
Real Property Taxes					\$ 387,507	\$ 0
Personal Property Taxes					43,571	
Motor Vehicle Taxes					79,180	
Profit and Occupational Taxes					2,469,585	
Deed Transfer Taxes					39,983	
Franchise Taxes					86,288	
In Lieu Tax Payments					224,756	
Excess Fees					99,032	
Intergovernmental revenue not restricted to specific programs					12,223	
Miscellaneous Revenues					1,098,823	
Interest Earned					18,326	
Total General Revenues and Transfers					\$ 4,559,274	\$ 0
Change in Net Assets					\$ 1,459,383	\$ 13,038
Net Assets - Beginning (Restated)					\$ 6,294,727	\$ 14,400
Net Assets - Ending					\$ 7,754,110	\$ 27,438

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY
BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS

As of June 30, 2005

ROWAN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
As of June 30, 2005

	General Fund	Road Fund	Jail Fund	Disaster And Emergency Services Fund	Ambulance Fund	County of Rowan Properties Corporation	Old Courthouse Restoration Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS									
Cash and Cash Equivalents	\$ 110,436	\$ 33,708	\$ 33,298	\$ 185,999	\$ 68,754	\$ 134,952	\$ 1,893,833	\$ 104,044	\$ 2,565,024
TOTAL ASSETS	<u>\$ 110,436</u>	<u>\$ 33,708</u>	<u>\$ 33,298</u>	<u>\$ 185,999</u>	<u>\$ 68,754</u>	<u>\$ 134,952</u>	<u>\$ 1,893,833</u>	<u>\$ 104,044</u>	<u>\$ 2,565,024</u>
FUND BALANCES									
Fund Balances:									
Reserved For Encumbrances	\$ 4,359	\$ 16,508	\$ 10,356	\$ 636	\$ 2,430	\$ 0	\$ 378	\$ 65	\$ 34,732
Reserved For Capital Projects							1,893,455		1,893,455
Unreserved									
General Fund	106,077								106,077
Special Revenue Funds		17,200	22,942	185,363	66,324			103,979	395,808
Debt Service Fund						134,952			134,952
TOTAL FUND BALANCES	<u>\$ 110,436</u>	<u>\$ 33,708</u>	<u>\$ 33,298</u>	<u>\$ 185,999</u>	<u>\$ 68,754</u>	<u>\$ 134,952</u>	<u>\$ 1,893,833</u>	<u>\$ 104,044</u>	<u>\$ 2,565,024</u>

Reconciliation to Statement of Changes in Net Assets:

Total Governmental Fund Balances \$ 2,565,024
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different because:

Capital Assets Used in Governmental Activities of \$10,691,430, net of accumulated depreciation of \$1,877,344 are not financial resources and, therefore, are not reported in the funds.

\$ 8,814,086

Liabilities:

Due Within One Year - Bond and Financing Obligation Principal Payments
Due In More Than One Year - Bond and Financing Obligation Principal Payments

\$ (540,000)
(3,085,000)

Net Assets of Governmental Activities

\$ 7,754,110

ROWAN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS

For The Year Ended June 30, 2005

ROWAN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2005

	Rowan County							Total Governmental Funds
	General Fund	Road Fund	Jail Fund	Disaster And Emergency Services Fund	Ambulance Fund	County of Rowan Properties Corporation	Old Courthouse Restoration Fund	
REVENUES								
Taxes	\$ 2,487,744	\$ 616,904	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,106,114
In Lieu Tax Payments	160,371	64,385						224,756
Excess Fees	99,032							99,032
License and Permits	155,368							155,368
Intergovernmental	568,238	1,110,754	805,729	42,032	178,689		10,000	2,955,369
Charges for Services		8,269	38,493		926,240			973,002
Miscellaneous	83,805	24,566	37,419	297	22,750		1,000,000	1,168,837
Interest	9,979	2,417	46	277	87	5,460	60	18,326
Total Revenues	\$ 3,564,537	\$ 1,827,295	\$ 881,687	\$ 42,606	\$ 1,127,766	\$ 5,460	\$ 1,010,000	\$ 8,700,804
EXPENDITURES								
General Government	\$ 1,091,982	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,091,982
Protection to Persons and Property	288,760	11,290	914,736	40,487	923,254			2,180,131
General Health and Sanitation	172,048							183,334
Social Services	31,039	3,057						34,096
Recreation and Culture	88,750							329,418
Airports	12,500	1,632,353						1,632,353
Roads								18,656
Road Facilities	18,656							614,872
Debt Service:								180,614
Principle	161,872	123,000			40,000	290,000		65
Interest	82,866	4,940			3,300	89,508		20,000
Miscellaneous						65		146,024
Bond Issuance Cost								1,584,011
Capital Projects		242,369		29,857	268,061			1,500
Administration			199,970					255,058
Total Expenditures	\$ 2,820,584	\$ 2,017,009	\$ 1,114,706	\$ 70,344	\$ 1,234,615	\$ 379,573	\$ 136,167	\$ 8,028,056
Excess (Deficiency) of Revenues over Expenditures Before Other Financing Sources (Uses)	\$ 743,953	\$ (189,714)	\$ (233,019)	\$ (27,738)	\$ (106,849)	\$ (374,114)	\$ 873,833	\$ 672,748
OTHER FINANCING SOURCES (USES)								
Financing Obligation Proceeds	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,000,000	\$ 1,000,000
Transfers from Other Funds		463,000	386,600	22,554	172,550	376,851	20,000	1,441,855
Transfers to Other Funds	(1,065,004)	(254,214)	(122,637)					(1,441,855)
Total Other Financial Sources (Uses)	\$ (1,065,004)	\$ 208,786	\$ 263,963	\$ 22,554	\$ 172,550	\$ 376,851	\$ 1,020,000	\$ 1,000,000
Net Change in Fund Balances	\$ (321,051)	\$ 19,072	\$ 30,944	\$ (5,184)	\$ 65,701	\$ 2,738	\$ 1,893,833	\$ 1,672,748
Fund Balances, Beginning	431,487	14,636	2,354	191,183	3,053	132,214	0	892,276
Fund Balances, Ending	\$ 110,436	\$ 33,708	\$ 33,298	\$ 185,999	\$ 68,754	\$ 134,952	\$ 1,893,833	\$ 2,565,024

The accompanying notes are an integral part of the financial statements.

**ROWAN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS**

For The Year Ended June 30, 2005

ROWAN COUNTY
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
 STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
 For The Year Ended June 30, 2005

Reconciliation to the Statement of Activities:

Net Change in Fund Balances-Total Governmental Funds	\$ 1,672,748
Governmental Funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Capital Outlay	494,297
Depreciation Expense	(221,061)
Net Book Value Of Disposed Assets	(135,384)
The issuance of new capital debt is recorded as capital debt proceeds in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:	
Financing Obligation Proceeds	(1,000,000)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:	
Capital Debt Obligation Principal Payments	<u>648,783</u>
Change in Net Assets of Governmental Activities	<u>\$ 1,459,383</u>

The accompanying notes are an integral part of the financial statements.

**ROWAN COUNTY
STATEMENT OF FUND NET ASSETS – PROPRIETARY FUND –
MODIFIED CASH BASIS**

As of June 30, 2005

ROWAN COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

As of June 30, 2005

	<u>Jail Canteen Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 18,198
Total Current Assets	<u>\$ 18,198</u>
Non Current Assets:	
Capital Assets - Net of Accumulated Depreciation	<u>\$ 9,240</u>
Total Non Current Assets	<u>\$ 9,240</u>
Net Assets	
Invested in Capital Assets/Net related debt	\$ 9,240
Unrestricted	<u>18,198</u>
Total Net Assets	<u><u>\$ 27,438</u></u>

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS – PROPRIETARY FUND – MODIFIED CASH BASIS

For The Year Ended June 30, 2005

ROWAN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	<u>Jail Canteen Fund</u>
Operating Revenues	
Canteen Receipts	\$ 108,079
Total Operating Revenues	<u>\$ 108,079</u>
 Operating Expenses	
Cost of Sales	\$ 65,549
Depreciation	1,760
Educational and Recreational	12,949
Miscellaneous	823
Total Operating Expenses	<u>81,081</u>
Operating Income (Loss)	<u>\$ 26,998</u>
 Nonoperating Revenues (Expenses)	
Inmate Refunds	\$ (13,960)
Total Nonoperating Revenues (Expenses)	<u>\$ (13,960)</u>
 Change In Net Assets	\$ 13,038
Total Net Assets - Beginning	14,400
Total Net Assets - Ending	<u><u>\$ 27,438</u></u>

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY
STATEMENT OF CASH FLOWS – PROPRIETARY FUND – MODIFIED CASH BASIS
For The Year Ended June 30, 2005

ROWAN COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities	
Receipts From Customers	\$ 108,079
Purchases From Vendors	(65,549)
Educational and Recreational	(12,948)
Miscellaneous	<u>(823)</u>
Net Cash Provided By Operating Activities	\$ 28,759
Cash Flows From Capital And Related Financing Activities	
Purchase of Vehicle	<u>\$ (11,000)</u>
Net Cash Provided By Capital And Related Financing Activities	\$ (11,000)
Cash Flows From Noncapital Financing Activities	
Inmate Refunds on Accounts	<u>\$ (13,961)</u>
Net Cash Provided By Noncapital Financing Activities	<u>\$ (13,961)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 3,798
Cash and Cash Equivalents-July 1, 2004	<u>14,400</u>
Cash and Cash Equivalents-June 30, 2005	<u><u>\$ 18,198</u></u>

	<u>Jail Canteen Fund</u>
Reconciliation	
Net Cash Provided By Operating Activities	\$ 28,759
Depreciation	<u>(1,761)</u>
Operating Income	<u><u>\$ 26,998</u></u>

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets are included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Rowan County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Auditing Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

The County of Rowan Properties Corporation

This fiscal court appoints the voting majority of the County Of Rowan Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the County Of Rowan Properties Corporation.

See Accompanying Auditors' Report.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies (Continued)

C. Rowan County Elected Officials

Kentucky Law provides for election of the below officials from the geographic area constituting Rowan County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Rowan County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Property Tax Calendar

Generally, and accept as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

E. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities; the difference between the two is being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

See Accompanying Auditors' Report.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies (Continued)

E. Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function 2) operating grants and contributions and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those funds whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

See Accompanying Auditors' Report.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies (Continued)

E. Government-Wide and Fund Financial Statements (Continued)

Disaster and Emergency Services Fund – The purpose of this fund is to account for disaster emergency services expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, grant funds from state and federal governments, and transfers in from the city of Morehead, Kentucky to help fund the service. The funds are used to maintain and operate emergency disaster services.

Ambulance Fund – The purpose of this fund is to account for ambulance service expenses of the county. The primary sources of revenue for this fund are charges for services, grant funds from state and federal governments, and transfers in from the City of Morehead, Kentucky to help fund the service. The funds are used to maintain and operate an ambulance service.

The County of Rowan Properties Corporation – The purpose of this fund is to account for the activities of the Rowan Properties Corporation, a blended component unit of the county. The Rowan Properties Corporation issued debt to build a detention facility, for road paving, and the purchase of an abuse center. The Rowan Properties Corporation has entered into a contract, lease, and option with the County. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

Old Courthouse Restoration Fund – The purpose of this fund is to account for the restoration and renovation of the old Rowan County courthouse. The W. Paul and Lucille Caudill Little Foundation donated a grant for \$1,000,000 dollars to the County for this project and the Fiscal Court matched this amount with a \$1,000,000 lease agreement with the Kentucky Area Development District Financing Trust.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, State Grants Fund, Hazmat 8 Fund, Forest Fire Fund, Community Development Block Grant Fund, and the Local Government Economic Development Fund.

Special Revenue Funds

The Road Fund, Jail Fund, Disaster and Emergency Services Fund, Ambulance Fund Local Government Economic Assistance Fund, State Grants Fund, Hazmat 8 Fund, Forest Fire Fund, Community Development Block Grant Fund, and the Local Government Economic Development Grant Fund are presented as Special Revenue Funds. Special Revenue Funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund

The County of Rowan Properties Corporation is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

See Accompanying Auditors' Report.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies (Continued)

E. Government-Wide and Fund Financial Statements (Continued)

Capital Projects Fund

The Old Courthouse Restoration Fund is presented as a capital projects fund. Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Proprietary Funds

All proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenue of the county's enterprise fund is rent income. Operating expenses for the enterprise fund include administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989 unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements of Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund – The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

F. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

See Accompanying Auditors' Report.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (Continued)

G. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental activities of the government-wide financial statements. Such assets are recorded at acquisition or construction cost or estimated historical cost when purchased or constructed. Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

<u>Category</u>	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	25,000	10-75
Machinery and Equipment	2,500	3-25
Vehicles	2,500	3-25
Infrastructure	20,000	10-50

H. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance cost when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds received are reported as other financing sources.

I. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

See Accompanying Auditors' Report.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies (Continued)

I. Fund Equity (Continued)

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances. "Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

J. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the County of Rowan Properties Fund (Debt Service Fund). The Governor's Office for Local Development does not require this fund to be budgeted.

K. Jointly Governed Organization

A jointly governed organization is an entity that results from a multigovernmental arrangement that is governed by representatives from each participation government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating government. The jointly governed organization can act independently of each of the participating governments. The Menifee, Morgan, and Rowan Counties Industrial Park (MMRC) meets the criteria noted above and is an organization jointly governed by the Kentucky counties previously mentioned. The Morehead-Rowan County Airport Board also meets the above criteria and is therefore disclosed as an organization jointly governed by the City of Morehead and Rowan County.

See Accompanying Auditors' Report.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Long-term Debt

Governmental Activities:

A. County of Rowan Properties Corporation – Detention Center

On September 1, 1997, the County of Rowan Properties Corporation issued \$1,285,000 of revenue bonds for the purpose of defeasing the 1991 bond series issue. The 1991 bonds were originally issued to finance construction of the Rowan County Detention Center. The refunding bonds were dated September 1, 1997, with the requirement that semiannual interest payments be made on March 1 of each year commencing March 1, 1998. The bonds will mature March 1, 2012. As of June 30, 2005, the principal amount outstanding was \$715,000. Bond payments for the remaining years are:

Fiscal Year Ended June 30, 2005	Governmental Activities	
	Interest	Principal
2006	\$ 36,016	\$ 90,000
2007	31,516	95,000
2008	26,766	95,000
2009	21,968	100,000
2010	16,918	105,000
2011-2012	17,676	230,000
Totals	<u>\$ 150,860</u>	<u>\$ 715,000</u>

See Accompanying Auditors' Report.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 3. Long-term Debt (Continued)

Governmental Activities: (Continued)

B. County of Rowan Properties Corporation – Road Improvements

On June 15, 1999, the County of Rowan Properties Corporation issued \$2,035,000 of revenue bonds for road improvements. The bonds require that semiannual interest and principal payments be made on June 1 and December 1 of each year commencing on December 1, 1999. One principal payment will be due on June 1 of each year commencing June 1, 2000. The bonds will mature June 1, 2009. As of June 30, 2005, the principal amount outstanding was \$920,000. Bond payments for the remaining years are:

Fiscal Year Ended June 30, 2005	Governmental Activities	
	Interest	Principal
2006	\$ 40,530	\$ 215,000
2007	31,393	225,000
2008	21,605	235,000
2009	11,148	245,000
Totals	<u>\$ 104,676</u>	<u>\$ 920,000</u>

C. Capital Lease – Airport Land Acquisition

Rowan County entered into a \$1,500,000 lease agreement with Kentucky Area Development Districts Financing Trust for airport land acquisition. The lease requires that semiannual interest payments be made on December 1 and June 1 of each year commencing December 1, 2000. One principal payment will be due on June 1 of each year commencing June 1, 2001. The lease agreement ends June 1, 2010. The Morehead – Rowan County Airport Board made a resolution that they would provide funds to the Rowan County Fiscal Court to make these payments. The Morehead – Rowan County Airport Board's ability to provide this funding is contingent on the Transportation Cabinet's Kentucky Aviation Economic Development Fund continuing to provide annual assistance to them. The principal balance on the lease was \$840,000 as of June 30, 2005. Lease payments for the remaining years are:

Fiscal Year Ended June 30, 2005	Governmental Activities	
	Interest	Principal
2006	\$ 42,840	\$ 150,000
2007	35,190	160,000
2008	27,030	170,000
2009	18,360	175,000
2010	9,435	185,000
Totals	<u>\$ 132,855</u>	<u>\$ 840,000</u>

See Accompanying Auditors' Report.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 3. Long-term Debt (Continued)

Governmental Activities (Continued)

D. Capital Lease – Abuse Shelter

On April 23, 1996, the County of Rowan Properties Corporation entered into a loan with Firstar Bank for \$65,000 for the purchase of a building. The loan carried an interest rate of 6.25% and required monthly payments of \$561 for 180 months. The Abuse Shelter was sold in the fiscal year ended June 30, 2005. Proceeds from this sale were used to pay this lease in full.

E. Capital Lease – Road Improvements

On July 3, 1995, Rowan County entered into a \$1,000,000 lease agreement with Kentucky Association of Counties Leasing Trust Program for road improvements. The agreement requires variable monthly payments for 114 months to be paid in full January 30, 2005. The principal balance of the agreement was paid in full as of January 20, 2005.

F. Capital Lease – Fire Truck Acquisition

Rowan County entered into a \$170,000 lease agreement with the Kentucky Area Development Districts Financing Trust for the purchase of a fire truck. The lease requires that semiannual interest payments be made on December 1 and June 1 of each year commencing on June 1, 2002. The lease agreement ends June 1, 2011. The principal on the lease was \$110,000 as of June 30, 2005.

Fiscal Year Ended June 30, 2005	Governmental Activities	
	Interest	Principal
2006	\$ 4,620	\$ 15,000
2007	3,990	15,000
2008	3,360	20,000
2009	2,520	20,000
2010	1,680	20,000
2011	840	20,000
Totals	<u>\$ 17,010</u>	<u>\$ 110,000</u>

G. Capital Lease – Debt Consolidation For Ambulance Board

Rowan County entered into a \$150,000 lease agreement with the Kentucky Area Development Districts Financing Trust for debt consolidation of the former Rowan County Ambulance Board. The lease requires that semiannual interest payments be made on December 1 and June 1 of each year commencing December 1, 2002. One principal payment is due on June 1 of each year commencing on June 1, 2003.

See Accompanying Auditors' Report.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 3. Long-term Debt (Continued)

Governmental Activities (Continued)

G. Capital Lease – Debt Consolidation For Ambulance Board (Continued)

The lease agreement ends June 1, 2006. The principal on the lease was \$40,000 as of June 30, 2005. Lease payments for the remaining years are:

Fiscal Year Ended June 30, 2005	Governmental Activities	
	Interest	Principal
2006	\$ 1,400	\$ 40,000
Totals	\$ 1,400	\$ 40,000

H. Capital Lease – Old Courthouse Restoration Project

On March 1, 2005, Rowan County entered into a \$1,000,000 lease agreement with the Kentucky Area Development Districts Financing Trust for the restoration and renovation of the Old Rowan County Courthouse. The lease requires that semiannual interest payments be made on March 1 and September 1 of each year through March 1, 2025. One principal payment is due on September 1 of each year commencing on September 1, 2005. The principal on the lease was \$1,000,000 as of June 30, 2005. Lease payments for the remaining years are:

Fiscal Year Ended June 30, 2005	Governmental Activities	
	Interest	Principal
2006	47,350	30,000
2007	46,408	35,000
2008	45,183	35,000
2009	43,958	35,000
2010	42,558	35,000
2011-2015	185,870	210,000
2016-2020	128,450	270,000
2021-2024	47,965	350,000
Totals	587,742	1,000,000

See Accompanying Auditors' Report.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 3. Long-term Debt (Continued)

Governmental Activities (Continued)

I. Changes in Long-Term Debt

Long-term liability activity for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$1,925,000	\$ 0	\$(290,000)	\$1,635,000	\$305,000
Financing Obligations	<u>\$1,348,783</u>	<u>\$ 1,000,000</u>	<u>\$(358,783)</u>	<u>\$1,990,000</u>	<u>\$235,000</u>
Long-term Liabilities	<u>\$3,273,783</u>	<u>\$ 1,000,000</u>	<u>\$(648,783)</u>	<u>\$3,625,000</u>	<u>\$540,000</u>

See Accompanying Auditors' Report.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 4,328,917	\$ 0	\$ 0	\$ 4,328,917
Total Capital Assets Not Being Depreciated:	\$ 4,328,917	\$ 0	\$ 0	\$ 4,328,917
Capital Assets, Being Depreciated:				
Buildings and Improvements	\$ 4,283,980	\$ 0	\$ (199,104)	\$ 4,084,876
Other Equipment	804,441	57,295		861,736
Vehicles and Equipment	759,605	26,332	0	785,937
Infrastructure	219,294	410,670		629,964
Total Capital Assets Being Depreciated	\$ 6,067,320	\$ 494,297	\$ (199,104)	\$ 6,362,513
Less Accumulated Depreciation For:				
Buildings	\$ 1,002,511	\$ 66,555	\$ 63,720	\$ 1,005,346
Other Equipment	417,174	42,274		459,448
Equipment and Vehicles	283,670	62,462		346,132
Infrastructure	16,648	49,770		66,418
Total Accumulated Depreciation	\$ 1,720,003	\$ 221,061	\$ 63,720	\$ 1,877,344
Total Capital Assets, Being Depreciated, Net	\$ 4,347,317	\$ 273,236	\$ (135,384)	\$ 4,485,169
Governmental Activities Capital Assets, Net	<u>\$ 8,676,234</u>	<u>\$ 273,236</u>	<u>\$ (135,384)</u>	<u>\$ 8,814,086</u>

Proprietary Activities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Being Depreciated:				
Vehicles	\$ 0	\$ 11,000	\$ 0	\$ 11,000
Total Capital Assets Being Depreciated	\$ 0	\$ 11,000	\$ 0	\$ 11,000
Less Accumulated Depreciation For:				
Vehicles	0	1,761	0	1,761
Total Accumulated Depreciation	\$ 0	\$ 1,761	\$ 0	\$ 1,761
Proprietary Activities Capital Assets, Net	<u>\$ 0</u>	<u>\$ 9,239</u>	<u>\$ 0</u>	<u>\$ 9,239</u>

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 4. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities

General Government	\$ 45,880
Protection to Persons and Property	75,564
General Health And Sanitation	2,232
Roads, Including Depreciation of General Infrastructure Assets	<u>97,385</u>
Total Depreciation Expense – Governmental Activities	<u>\$ 221,061</u>

Business – Type Activities

Jail Canteen	<u>\$ 1,761</u>
--------------	-----------------

Note 5. Interest on Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$71,729 in interest on financing obligations and \$103,458 in interest on bonds.

Note 6. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

See Accompanying Auditors' Report.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 7. Deferred Compensation

The Rowan County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees Deferred Compensation Authority, 105 Sea Hero Road Suite #1, Frankfort, KY 40601-8862.

Note 8. Insurance

For the fiscal year ended June 30, 2005, Rowan County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Doves Building Project

The Rowan County Fiscal Court received a Community Development Block Grant in the amount of \$500,000 for the purpose of assisting D.O.V.E.S. of Gateway purchase a building to be used as an abuse shelter. \$480,000 of the grant proceeds were used to purchase the building and the remainder was designated for planning and administration of the grant. The purchase price of the building was \$575,700. D.O.V.E.S. of Gateway obtained a bank loan for the rest of the funds needed to purchase the building and make needed improvements to the property. The deed of conveyance giving the Rowan County Fiscal Court legal title to the property stipulates that title to the property will be conveyed to D.O.V.E.S. of Gateway six (6) months after the closeout of the Community Development Block Grant.

Note 10. Subsequent Events

On July 27, 2005, Rowan County entered into a \$239,920 lease agreement with the Kentucky Association of Counties for Road Equipment. The lease requires an annual principal payment on July 20 of each year with an initial payment of \$45,000 due on July 20, 2006 with an interest rate of 3.51%. The principal on the lease was \$239,920 as of June 30, 2005.

See Accompanying Auditors' Report.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 11. Prior Period Adjustment

The Net Assets as of June 30, 2004 included capitalized infrastructure assets in the amount of \$227,357, net of accumulated depreciation of \$20,677. This amount was for expenditures that had not been paid until August 2004. This resulted in a net decrease in expenditures of \$227,357 in the prior year. The prior period adjustment has been made to reflect the expenditures in the year in which it was made.

See Accompanying Auditors' Report.

ROWAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplemental Information – Modified Cash Basis

For The Year Ended June 30, 2005

ROWAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplemental Information - Modified Cash Basis
For The Year Ended June 30, 2005

GENERAL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,367,000	\$ 2,417,000	\$ 2,487,744	\$ 70,744
In Lieu Tax Payments	86,000	86,000	160,371	74,371
Excess Fees	51,000	85,356	99,032	13,676
License and Permits	114,300	114,300	155,368	41,068
Intergovernmental	460,760	565,760	568,238	2,478
Miscellaneous	100,000	100,000	83,805	(16,195)
Interest	1,000	6,391	9,979	3,588
Total Revenues	\$ 3,180,060	\$ 3,374,807	\$ 3,564,537	\$ 189,730
EXPENDITURES				
General Government	\$ 1,282,641	\$ 1,201,384	\$ 1,091,982	\$ 109,402
Protection to Persons and Property	326,700	317,739	288,760	28,979
General Health and Sanitation	161,099	179,369	172,048	7,321
Social Services	34,000	36,313	31,039	5,274
Recreation and Culture	101,000	91,000	88,750	2,250
Roads	31,156	31,156	31,156	0
Debt Service	223,026	249,043	244,738	4,305
Administration	862,743	909,840	872,111	37,729
Total Expenditures	\$ 3,022,365	\$ 3,015,844	\$ 2,820,584	\$ 195,260
Excess (Deficiency) of Revenues over Expenditures Before Other Financing Sources (Uses)	\$ 157,695	\$ 358,963	\$ 743,953	\$ 384,990
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	\$ (850,198)	\$ (850,198)	\$ (1,065,004)	\$ (214,806)
Total Other Financing Sources (Uses)	\$ (850,198)	\$ (850,198)	\$ (1,065,004)	\$ (214,806)
Net Change in Fund Balances	\$ (692,503)	\$ (491,235)	\$ (321,051)	\$ 170,184
Fund Balances, Beginning	692,503	692,503	431,487	(261,016)
Fund Balances, Ending	\$ 0	\$ 201,268	\$ 110,436	\$ (90,832)

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplemental Information - Modified Cash Basis
For The Year Ended June 30, 2005 (Continued)

ROAD FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,059,000	\$ 1,206,054	\$ 1,110,754	\$ (95,300)
Taxes	610,000	610,000	616,904	6,904
In Lieu Tax Payments	61,000	61,000	64,385	3,385
Charges For Services	0	8,269	8,269	0
Miscellaneous	13,000	22,669	24,566	1,897
Interest	1,000	1,000	2,417	1,417
Total Revenues	\$ 1,744,000	\$ 1,908,992	\$ 1,827,295	\$ (81,697)
EXPENDITURES				
Roads	\$ 1,300,261	\$ 1,638,285	\$ 1,632,353	\$ 5,932
Protection to Persons and Property	0	11,290	11,290	0
Social Services	6,000	3,057	3,057	0
Debt Service	381,565	382,183	382,154	29
Administration	250,396	244,873	242,369	2,504
Total Expenditures	\$ 1,938,222	\$ 2,279,688	\$ 2,271,223	\$ 8,465
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	\$ (194,222)	\$ (370,696)	\$ (443,928)	\$ (73,232)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	\$ 194,222	\$ 194,222	\$ 463,000	\$ 268,778
Total Other Financing Sources (Uses)	\$ 194,222	\$ 194,222	\$ 463,000	\$ 268,778
Net Changes in Fund Balance	\$ 0	\$ (176,474)	\$ 19,072	\$ 195,546
Fund Balance - Beginning	0	14,636	14,636	0
Fund Balance - Ending	\$ 0	\$ (161,838)	\$ 33,708	\$ 195,546

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplemental Information - Modified Cash Basis
For The Year Ended June 30, 2005 (Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 590,700	\$ 673,471	\$ 805,729	\$ 132,258
Charges for Services	47,600	49,528	38,493	(11,035)
Miscellaneous	17,000	29,867	37,419	7,552
Interest	50	50	45	(5)
Total Revenues	\$ 655,350	\$ 752,916	\$ 881,686	\$ 128,770
EXPENDITURES				
Administration	\$ 198,369	\$ 205,898	\$ 199,969	\$ 5,929
Protection to Persons and Property	799,405	927,036	914,736	12,300
Debt Service	118,448	122,637	122,637	0
Total Expenditures	\$ 1,116,222	\$ 1,255,571	\$ 1,237,342	\$ 18,229
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	\$ (460,872)	\$ (502,655)	\$ (355,656)	\$ 146,999
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	\$ 0	\$ 0	\$ 0	\$ 0
Transfers From Other Funds	460,872	460,872	386,600	(74,272)
Total Other Financing Sources (Uses)	\$ 460,872	\$ 460,872	\$ 386,600	\$ (74,272)
Net Changes in Fund Balance	\$ 0	\$ (41,783)	\$ 30,944	\$ 72,727
Fund Balance - Beginning	0	2,354	2,354	0
Fund Balance - Ending	\$ 0	\$ (39,429)	\$ 33,298	\$ 72,727

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplemental Information - Modified Cash Basis
For The Year Ended June 30, 2005

	Ambulance Fund			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 198,381	\$ 207,570	\$ 178,689	\$ (28,881)
Charges For Services	895,000	895,000	926,240	31,240
Miscellaneous	20,000	20,000	22,750	2,750
Interest	0	0	87	87
Total Revenues	\$ 1,113,381	\$ 1,122,570	\$ 1,127,766	\$ 5,196
EXPENDITURES				
Protection to Persons and Property	\$ 954,339	\$ 980,838	\$ 923,254	\$ 57,584
Debt Service	43,300	43,300	43,300	0
Administration	288,292	274,035	268,061	5,974
Total Expenditures	\$ 1,285,931	\$ 1,298,173	\$ 1,234,615	\$ 63,558
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	\$ (172,550)	\$ (175,603)	\$ (106,849)	\$ 68,754
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	\$ 172,550	\$ 172,550	\$ 172,550	\$ 0
Net Changes in Fund Balance	\$ 0	\$ (3,053)	\$ 65,701	\$ 68,754
Fund Balance - Beginning	0	3,053	3,053	0
Fund Balance - Ending	\$ 0	\$ 0	\$ 68,754	\$ 68,754

ROWAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplemental Information - Modified Cash Basis
For The Year Ended June 30, 2005 (Continued)

	D.E.S. FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 43,782	\$ 46,282	\$ 42,032	\$ (4,250)
Miscellaneous			297	297
Interest			277	277
Total Revenues	\$ 43,782	\$ 46,282	\$ 42,606	\$ (3,676)
EXPENDITURES				
Protection to Persons and Property	\$ 50,237	\$ 53,937	\$ 40,487	\$ 13,450
Administration	211,099	209,899	29,857	180,042
Total Expenditures	\$ 261,336	\$ 263,836	\$ 70,344	\$ 193,492
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	\$ (217,554)	\$ (217,554)	\$ (27,738)	\$ 189,816
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	\$ 22,554	\$ 22,554	\$ 22,554	\$ 0
Total Other Financing Sources	\$ 22,554	\$ 22,554	\$ 22,554	\$ 0
Net Change In Fund Balance	(195,000)	(195,000)	(5,184)	189,816
Fund Balance - Beginning	195,000	195,000	191,183	(3,817)
Fund Balance - Ending	\$ 0	\$ 0	\$ 185,999	\$ 185,999

ROWAN COUNTY
Notes to Required Supplementary Information
For the Year Ended June 30, 2005

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Jail Canteen Fund or the Public Properties Corporation.

The State Local Finance Officer does not require the Public Properties Corporation to be budgeted. Bond indentures and other relevant contractual provisions require specific annual payments to these funds and these transfers are budgeted in the governmental funds. Therefore, budgeted expenditures of the Road Fund and Jail Fund on the Statement of Revenues, Expenditures, And Changes in Fund Balances – Governmental Funds - Modified Cash Basis, will be less than those on the budgetary comparison schedules in an amount equal to the transfers from the Road and Jail Funds to the County of Rowan Properties Corporation.

The State Local Finance Officer does not require the Jail Canteen Fund to be budgeted because the fiscal court does not approve the expenses made from these funds.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation of Required Supplementary Information to Statement of Revenues, Expenditures, and Changes in Fund Balances

Following is a summary of adjustments that convert the cash basis budgetary schedules to the modified cash basis of accounting used in the Statement of Revenues, Expenditures, and changes in fund Balances:

	<u>Expenditures</u>
<i>Road Fund</i>	
Budgetary Comparison Schedule	\$ 2,271,223
Transfers To County Of Rowan Properties Corp. For Bond Principal And Interest Payments	<u>(254,214)</u>
Statement Of Revenues, Expenditures, and Changes In Fund Balance – Governmental Funds – Modified Cash Basis	<u>\$ 2,017,009</u>

ROWAN COUNTY
Notes to Required Supplementary Information
For the Year Ended June 30, 2005 (Continued)

Jail Fund

Budgetary Comparison Schedule \$ 1,237,342

Transfers To County Of Rowan Properties Corp.
For Bond Principal And Interest Payments (122,636)

Statement Of Revenues, Expenditures, and
Changes In Fund Balance –
Governmental Funds – Modified
Cash Basis \$ 1,114,706

**ROWAN COUNTY
COMBINING BALANCE SHEET – NON-MAJOR
GOVERNMENTAL FUND – MODIFIED CASH BASIS**

As of June 30, 2005

ROWAN COUNTY
 COMBINING BALANCE SHEET -
 NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 Other Supplementary Information

As of June 30, 2005

	Local Government Economic Assistance Fund	State Grants Fund	Hazmat 8 Fund	Forest Fire Fund	Local Government Economic Development Grant Fund	CDBG Fund	Total Non- Major Governmental Funds
ASSETS							
Cash and Cash Equivalents	\$ 52,539	\$ 6,562	\$ 2,356	\$ 187	\$ 42,400	\$ 0	\$ 104,044
TOTAL ASSETS	<u>\$ 52,539</u>	<u>\$ 6,562</u>	<u>\$ 2,356</u>	<u>\$ 187</u>	<u>\$ 42,400</u>	<u>\$ 0</u>	<u>\$ 104,044</u>
FUND BALANCES							
Reserved For Encumbrances	\$ 0	\$ 0	\$ 65	\$ 0	\$ 0	\$ 0	\$ 65
Unreserved	52,539	6,562	2,291	187	42,400	0	103,979
TOTAL FUND BALANCES	<u>\$ 52,539</u>	<u>\$ 6,562</u>	<u>\$ 2,356</u>	<u>\$ 187</u>	<u>\$ 42,400</u>	<u>\$ 0</u>	<u>\$ 104,044</u>

**ROWAN COUNTY
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES –
NON-MAJOR GOVERNMENTAL FUNDS – MODIFIED CASH BASIS**

For The Year Ended June 30, 2005

ROWAN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2005

	Local Government Economic Assistance Fund	State Grants Fund	Hazmat 8 Fund	Forest Fire Fund	Local Government Economic Development Grant Fund	CDBG Fund	Total Non-Major Governmental Funds
REVENUES							
Taxes	\$ 0	\$ 0	\$ 0	\$ 1,466	\$ 0	\$ 0	\$ 1,466
Intergovernmental	43,421		195,006			1,500	239,927
Interest	60						60
Total Revenues	\$ 43,481	\$ 0	\$ 195,006	\$ 1,466	\$ 0	\$ 1,500	\$ 241,453
EXPENDITURES							
Protection to Persons and Property	\$ 0	\$ 0	\$ 0	\$ 1,604	\$ 0	\$ 0	\$ 1,604
General Health and Sanitation		11,286					11,286
Recreation and Culture	3,140		237,528			1,500	240,668
Administration							1,500
Total Expenditures	\$ 3,140	\$ 11,286	\$ 237,528	\$ 1,604	\$ 0	\$ 1,500	\$ 255,058
Excess (Deficiency) of Revenues over Expenditures Before Other and Financing Sources (Uses)	\$ 40,341	\$ (11,286)	\$ (42,522)	\$ (138)	\$ 0	\$ 0	\$ (13,605)
OTHER FINANCING SOURCES (USES)							
Transfers from Other Funds	\$ 0	\$ 0	\$ 0	\$ 300	\$ 0	\$ 0	\$ 300
Total Other Financial Sources (Uses)	\$ 0	\$ 0	\$ 0	\$ 300	\$ 0	\$ 0	\$ 300
Net Change In Fund Balances	\$ 40,341	\$ (11,286)	\$ (42,522)	\$ 162	\$ 0	\$ 0	\$ (13,305)
Fund Balances, Beginning	12,198	17,848	44,878	25	42,400		117,349
Fund Balances, Ending	\$ 52,539	\$ 6,562	\$ 2,356	\$ 187	\$ 42,400	\$ 0	\$ 104,044

**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Clyde A. Thomas, Rowan County Judge/Executive

Members of the Rowan County Fiscal Court

Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Rowan County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated November 11, 2005. Rowan County prepares its financial statements in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rowan County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Internal Control Over
Financial Reporting And On Compliance And
Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Rowan County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of material noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Morgan-Franklin, LLC".

Morgan-Franklin, LLC

Audit fieldwork completed –
November 11, 2005

Appendix A

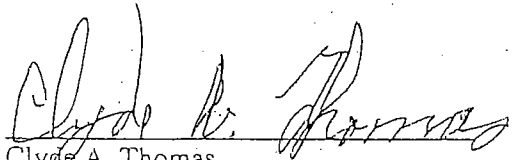
CERTIFICATION OF COMPLIANCE –
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
ROWAN COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2005

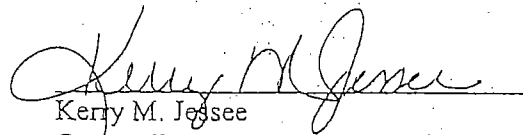
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC PROGRAMS
ROWAN COUNTY FISCAL COURT

For The Year Ended June 30, 2005

The Rowan County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Clyde A. Thomas
County Judge/Executive



Kerry M. Jessee
County Treasurer